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C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 000584

SIPDIS

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SUBJECT: EC GREEN LINE LIBERALIZATION GAME PLAN FOR CYPRUS

REF: BRUSSELS 537

Classified By: USEU/POL Harry OHara, reasons 1.4 b/d

1. (C) Summary: Commission officials are pleased they negotiated a preliminary agreement on February 4 with the Cypriot Government to liberalize some green line commerce in Cyprus. The EC is also pleased that Luxembourg, as the EU president, seems intent on quickly moving the agreement to Council approval at the February 17 ECOFIN meeting. EC officials hope the long-promised 259 million Euro financial package by the EU can be approved mid-2005, but are pessimistic that member states will apply enough pressure to get Cyprus to accept the direct trade package for North Cyprus that the Commission proposed last July. End Summary.

2. (SBU) On February 4, EC Officials from DG-Enlargement reached a preliminary agreement with Cyprus to permit some liberalization of trade across the green line between North Cyprus and Cyprus. Key features of the agreement include a new crossing point in Nicosia (Ledra street) and an increase in the value of goods that can be carried across the green line for personal use from 30 Euros to 135 Euros. On the latter, Commission negotiators told us it took 5 hours of hard bargaining in Cyprus, and phone calls between EC Enlargement Director General Barbato and Cypriot President Papadopolous, to arrive at the 135 Euros figure.

A Cypriot Safeguard

3. (C) Subsequently, the Cypriot government had second thoughts on the 135 Euro amount and told the Commission it would back away from the preliminary agreement unless the Commission also granted Cyprus a safeguard. After discussions in Brussels February 7 and 8, the Commission and Cyprus agreed upon a safeguard whereby Cyprus can ask that, for a three month period, the value of goods taken duty-free across the green line for personal use be reduced to 30 Euros, if the Cypriot government believes increased commerce over the green line is disrupting its economy.

Luxembourg Presidency Engages

4. (C) In response to the February 4 agreement, Commission officials (who make up the so-called ad-hoc Cyprus Group) held their first formal meeting February 8 with Luxembourg in the latter's EU presidency capacity. Commission officials were pleased and saw the meeting as a sign of Luxembourg engagement (reftel), but were ambivalent about the message they got from Luxembourg, namely that Luxembourg will let the Council structures be used to ratify or confirm Commission agreements as long as it is not too difficult or too divisive for EU unity. The Commission understands the message underlying this as do not do anything that will agitate Cyprus. Another Commission official, who oversees both Cyprus and Turkey, told us DG-Enlargement believes it is possible for the Commission to push Cyprus a bit without complicating the Turkish accession process scenario for this year. But Commission officials told us they would be careful not to push Luxembourg too hard on Cyprus.

Next Steps

5. (C) The Commission will present its preliminary green line agreement with Cyprus at a working-level meeting with Council officials February 10. The Commission believes Cypriot concerns have been met with the safeguard and hope they can get an early Council endorsement. They are pleased the Luxembourg Presidency is prepared to put it on the agenda of the February 17 ECOFIN meeting as an A point (i.e. expected to be approved without discussion). On a separate track, the Commission is working with the Cypriot government and North Cyprus to get them to eventually agree to open a crossing point on the road between Zodia and Astromeritus. Commission officials tell us this will take some time, as a great deal of de-mining needs to be finished first.

What about the Financial Instrument and Direct Trade?

6. (C) The Commission's current plan is to start working with the Cypriot government in March to overcome its objections to the EU's financial instrument (currently blocked by Cyprus). The Commission hopes they now have a solution to Cyprus' last major objection over the location of the EC Agency to design

and administer programs in the North. The Commission will agree to a Cypriot request that the Agency operate under the laws of the Republic and that it will have an address in the South. In exchange, the Commission will ask for approval to operate throughout the island with an implicit understanding the majority of people working for the Agency will be located in the North. The Commission hopes that by mid-year they will have agreement from Cyprus to start programs. On the politically charged linkage between the financial instrument and a regulation facilitating direct trade between the North and the rest of the EU, the Commission hopes member states will allow the Commission to move ahead on the financial instrument, and not hold the assistance hostage to a solution on direct trade.

17. (C) Our Commission interlocutors increasingly are taking the unofficial view that direct trade for the North is dead and that Cyprus will not drop its opposition to it. One Commission official told us he is working informally to see if some aspect of the direct trade proposal might be relabeled and repackaged for consideration by the UK Presidency in the latter of this year. To help sweeten the deal for the Greek Cypriots, the Commission has agreed that anything they do on direct trade would be based on consensus and not qualified majority voting -- thus letting Cyprus veto any aspect of direct trade. This was a widely debated topic last fall between the Commission and Council legal services. Despite the ECs concession to the Council and the Cypriot view, Cyprus still has not budged in its opposition to direct trade for North Cyprus.

McKinley

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